

O'MELVENY & MYERS LLP
KENNETH L. NISSLY (SBN 77589) knissly@omm.com
SUSAN G. van KEULEN (SBN 136060) svankeulen@omm.com
SUSAN ROEDER (SBN 160897) sroeder@omm.com
2765 Sand Hill Road
Menlo Park, California 94025-7019
Telephone: (650) 473-2600; Facsimile: (650) 473-2601

TOWNSEND AND TOWNSEND AND CREW LLP
THEODORE G. BROWN, III (SBN 114672) tgbrown@townsend.com
JULIE J. HAN (SBN 215279) jjhan@townsend.com
379 Lytton Avenue
Palo Alto, California 94301
Telephone: (650) 326-2400; Facsimile: (650) 326-2422

Attorneys for Plaintiffs
HYNIX SEMICONDUCTOR INC.,
HYNIX SEMICONDUCTOR AMERICA INC.,
HYNIX SEMICONDUCTOR U.K. LTD., and
HYNIX SEMICONDUCTOR DEUTSCHLAND GmbH

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

HYNIX SEMICONDUCTOR INC.,
HYNIX SEMICONDUCTOR AMERICA
INC., HYNIX SEMICONDUCTOR U.K.
LTD., and HYNIX SEMICONDUCTOR
DEUTSCHLAND GmbH,

Plaintiffs,

v.

RAMBUS INC.,

Defendant.

Case No. CV 00-20905 RMW

**HYNIX'S NOTICE OF MOTION AND
MOTION FOR STAY OF EXECUTION OF
MONEY JUDGMENT AND FOR
PERMISSION TO POST ALTERNATIVE
SECURITY; MEMORANDUM OF POINTS
AND AUTHORITIES IN SUPPORT
THEREOF**

[PUBLIC VERSION]

Date: May 1, 2009
Time: 2:00 p.m.
Ctrm: 6
Judge: Honorable Ronald M. Whyte

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NOTICE OF MOTION AND MOTION

TO ALL PARTIES AND THEIR COUNSEL OF RECORD:

PLEASE TAKE NOTICE that at 2:00 p.m. on May 1, 2009, or as soon thereafter as the matter may be heard by the Honorable Ronald M. Whyte, plaintiffs Hynix Semiconductor Inc., Hynix Semiconductor America Inc., Hynix Semiconductor U.K. Ltd., and Hynix Semiconductor Deutschland GmbH (collectively "Hynix") will bring a motion to stay execution of the money judgment in this action and for permission to post security other than a supersedeas bond in the full amount of the judgment as specified in Federal Rule of Civil Procedure 62(d). A Proposed Order is attached to this notice and motion as Exhibit A.

The motion will be based on this notice of motion, the memorandum of points and authorities that follows, the declarations of Yoo Ho Roh, Taekjin Sa, Jae Park, and Chang Weon Rhee submitted in support of this motion, any additional evidence or argument that Hynix may submit in support of this motion at or before the hearing of this matter, and upon the documents in the Court's file.

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

The current global recession is widely considered to be the worst since the Great Depression. One of the signature features of this crisis is that it is centered in the financial sector, causing a severe contraction of the credit markets. The shortage of credit has, in turn, cascaded throughout the larger economy, which relies on the availability of credit in order to function smoothly. As a result, today even the world's most well-established corporations are facing unprecedented business setbacks. In this climate -- which affects the global economy, the Korean economy, the DRAM industry, and Hynix specifically -- Hynix is now faced with the extraordinary challenge of seeking a bond to secure the judgment of nearly \$400 million.

The entire DRAM industry is reeling. Average selling prices (ASPs) for DRAMs fell over 50% in 2007, and another 50% in 2008, and are now reported to be below manufacturing costs.¹ Recently, a major producer, Qimonda, declared bankruptcy, and several Taiwanese DRAM companies are seeking merger partners or other business arrangements in order to survive.² Even as the world's number two DRAM producer, Hynix's financial condition has worsened significantly in the past year, with revenues, net profits, and cash on hand all falling.³ Hynix's problems are exacerbated by the fact that the Korean won has fallen 35% against the dollar since last summer, causing Hynix's won-denominated credit obligations to increase.⁴

If the Court does not stay execution of the final judgment

[REDACTED]

¹http://www.fabtech.org/news/_a/samsung_and_micron_gain_most_market_share_in_dram_crisis/# (article entitled "Samsung and Micron gain most market share in DRAM crisis" (article dated February 17, 2009; last visited March 24, 2009)).

² Declaration of Yoo Ho Roh submitted in support of this motion ("Roh Decl."), ¶ 11.

³ Roh Decl, ¶ 11.

⁴ Roh Decl, ¶¶ 11, 17.

1 [REDACTED]
2 [REDACTED]
3 Hynix would be entitled to an automatic stay of execution if it posted a
4 supersedeas bond. *See* Fed. R. Civ. P. 62(d). However, in the current economic environment, no
5 surety will post a bond [REDACTED] making it impracticable to
6 obtain a supersedeas bond in the full amount of the final judgment. Settled law permits
7 alternative security in this situation. Hynix can provide a supersedeas bond in the amount of \$200
8 million, together with [REDACTED]
9 [REDACTED]

10 [REDACTED] This alternative security adequately protects Rambus's
11 ability to collect on its judgment if it ultimately prevails. Thus the Court should approve the
12 alternative security so that Hynix and its creditors are not forced to suffer the devastating impact
13 of an unstayed judgment.

14 The Court has suggested that Hynix also address in this motion the issue of
15 whether the ongoing royalties awarded to Rambus should be accrued, paid into escrow, or paid to
16 Rambus. Rambus has strategically avoided admitting that Hynix would be entitled to recover
17 ongoing royalties paid to Rambus if the judgment in this case is reversed; indeed, Rambus
18 appears poised to argue that it is entitled to retain ongoing royalties even if it loses the appeal.
19 Payment of royalties to Rambus or into escrow will also require Hynix to pay [REDACTED]
20 [REDACTED] withholding taxes to the Korean government, and Hynix will have to take various
21 administrative steps to recover those tax payments in the event Hynix wins on appeal. Most
22 importantly, forcing Hynix to pay Rambus before resolution of the appeal would be manifestly
23 unjust because it would make Hynix the only significant DRAM maker paying royalties to
24 Rambus under the patents-in-suit, thereby impairing Hynix's ability to compete. *See Mendenhall*
25 *v. Barber-Greene Co.*, 26 F.3d 1573, 1583 (Fed. Cir. 1994). Under these circumstances, Hynix
26 should be permitted to accrue ongoing royalties while the appeal is pending.
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28

1 **II. STATEMENT OF FACTS**

2 **A. Final Judgment**

3 On March 10, 2008, the Court entered final judgment against Hynix in the amount
4 of \$396,881,244. *See* Final Judgment (D.E. 3911), ¶¶ 1, 2, and 4. Included in the judgment was
5 an award of ongoing royalties to Rambus during the period after January 31, 2009 and before
6 April 18, 2010. *Id.*, ¶ 7.

7 **B. Hynix's Financial and Debt Structure**

8 Hynix depends on short-term and long-term debt and credit arrangements to fund
9 its business operations, as described in this section. Hynix had consolidated total loans in the
10 amount of approximately [REDACTED] as of December 31, 2008. Roh Decl., ¶ 12.

11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
28 [REDACTED]

1 **C. Hynix's Posting of Bond in September 2006**

2 This is the second time that Hynix has faced the necessity of obtaining a bond in
3 this case, and reviewing the history of the previous Hynix bond demonstrates how dramatically
4 the economic environment has changed over the past two-and-a-half years. In August 2006, this
5 Court issued an order staying Phase III of the trial until February 2007 in view of the FTC's
6 investigation into Rambus's conduct. Order Staying Phase III of Trial Pending Final Order of the
7 Federal Trade Commission (D.E. 2394). The stay was conditional on Hynix posting "security
8 satisfactory to the court that will ensure payment of the damages that were awarded to Rambus in
9 Phase II, prejudgment interest on the Phase II award, and royalties on Hynix's SDRAM and DDR
10 SDRAM sales from January 1, 2006 through February 2, 2007 at a rate of 1% for the SDRAM
11 and 4.25% for the DDR SDRAM." *Id.* at 8:27-9:4. In connection with the Stay Order, Hynix
12 retained a broker, Marsh Korea, and on September 22, 2006 filed a bond with American Home
13 Assurance Company as surety in the amount of \$192,333,637. Stay Bond (D.E. 2421). The bond
14 was backed by stand-by Letters of Credit from various Korean financial institutions. *See* Hynix
15 Status Conference Statement, filed August 30, 2006. The bond was released in March 2007,
16 following a lifting of the stay. *See* March 15, 2007 Order Granting Motion for Release of Bond
17 (D.E. 2508) and March 20, 2007 Supplemental Order Releasing Bond (D.E. 2546).

18 **D. Status of Hynix's Efforts to Obtain a Supersedeas Bond**

19 Shortly after conclusion of the Phase III trial, and many months before final
20 judgment was entered in this case, Hynix began seeking a bond in connection with its planned
21 appeal. Roh Decl., ¶ 3. Hynix began these efforts early because from its experience in 2006,
22 coupled with the anticipated size of the judgment, Hynix knew it would take considerable time to
23 obtain a bond.

24 **1. Hynix efforts -- Spring and Summer 2008**

25 In May 2008, Hynix began planning the efforts required to obtain a bond. Roh
26 Decl., ¶ 3. In June 2008, Hynix identified and retained a broker, [REDACTED] which assisted
27 Hynix in identifying and selecting [REDACTED] as its surety to
28 underwrite a bond. *Id.* [REDACTED]

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[REDACTED]

In June 2008, Hynix's Share Management Council

[REDACTED]

Due to these efforts, Hynix believed in the summer of 2008 that it would have been able to obtain a supersedeas bond, at least in some significant amount, although it had no firm commitment and could not finalize bond arrangements because the total amount of the final judgment was unknown. *Id.*, ¶ 5.

2. Deteriorating economic conditions -- Fall 2008

The financial turmoil that began in the fall of 2008 has crippled Hynix's efforts to

1 obtain [REDACTED] a bond. Banks worldwide are avoiding making inter-bank
2 loans, creating a money shortage among Korean banks. Roh Decl., ¶ 10. The credit ratings of
3 Korean commercial banks have been downgraded, [REDACTED]
4 [REDACTED] *Id.* Meanwhile, the Korean won has fallen 35%
5 against the U.S. dollar since June 2008. *Id.*, ¶ 16.

6 The DRAM industry is in serious financial difficulty, with all major DRAM
7 manufacturers (including Hynix) suffering serious losses. *Id.*, ¶¶ 11, 17. One major DRAM
8 producer (Qimonda) recently declared bankruptcy, and several Taiwanese DRAM companies are
9 financially distressed. *Id.*, ¶ 11. Because DRAM prices are at historically low levels, [REDACTED]
10 [REDACTED]
11 [REDACTED]

12 **3. Recent efforts to obtain a bond**

13 Following entry of judgment, Hynix obtained a new bond proposal from [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]

26 Based on the most recent discussions and information, Hynix presently believes
27 that the largest bond it can obtain will be in the total amount of \$200 million, although it does not
28

1 yet have a firm commitment for [REDACTED].⁵ *Id.*,

2 ¶ 20.

3 **III. IF EXECUTION OF THE JUDGMENT IS NOT STAYED,** [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 The Court has a duty under these circumstances to consider the interests of all of

15 Hynix's creditors:

16 A judgment creditor is a bona fide creditor, but the court that issues the judgment

17 is not required to ignore the interests of other creditors when deciding how much

18 security to make the [losing party] post as a condition of being allowed to stave off

19 execution of the judgment pending appeal. This becomes apparent when we

20 consider the contingent nature of such a creditor's claim if an appeal is filed, as in

21 this case. If the judgment is reversed, the claim is void *ab initio*. Of course other

creditors' claims may be contingent too; nevertheless it would be a painful irony

for us to impair and perhaps even destroy the other creditors' claims merely to

remove every element of hazard from a claim that may not survive the process of

appeal.

22 *Olympia Equip. Leasing Co. v. Western Union Tel.*, 786 F.2d 794, 798 (7th Cir. 1986). Hynix's

23 other creditors have rights that, in most if not all cases, take priority over Rambus's rights

24 because the other creditors' rights arose earlier. [REDACTED]

25 [REDACTED]

26 ⁵ Hynix Semiconductor America Inc., Hynix Semiconductor U.K. Ltd, and Hynix Semiconductor

27 Deutschland GmbH are subsidiaries of Hynix Semiconductor Inc. ("HSI") engaged in sales and

28 marketing activities in their respective territories. Declaration of Jae Park submitted in support of

this motion, ¶ 3. They have very limited assets, and they do not have any ability to post a

significant supersedeas bond separate and apart from HSI. *Id.*, ¶ 5.

1 [REDACTED] It would be contrary to law and
 2 manifestly unfair to force Hynix into this position, which would injure all parties including
 3 Rambus, when Hynix is offering adequate alternative security.

4 **IV. BECAUSE THE CURRENT ECONOMIC CRISIS MAKES OBTAINING A**
 5 **SUPERSEDEAS BOND IN THE FULL AMOUNT OF THE JUDGMENT**
 6 **IMPRACTICABLE, HYNIX SHOULD BE PERMITTED TO SUBSTITUTE AN**
 7 **ALTERNATIVE FORM OF SECURITY**

8 Pursuant to Federal Rule of Civil Procedure 62(a), execution on a money judgment
 9 is automatically stayed for 10 days from entry of judgment.⁶ Thereafter, a losing party may
 10 obtain an automatic stay of proceedings to enforce a money judgment by filing an appeal and
 11 posting a supersedeas bond. Fed. R. Civ. Proc. 62(d) (“If an appeal is taken, the appellant may
 12 obtain a stay by supersedeas bond.”) “The bond may be given upon or after filing the notice of
 13 appeal” and “[t]he stay takes effect when the court approves the bond.” *Id.* The purpose of the
 14 bond requirement is to maintain the status quo and protect the parties from loss pending further
 15 action in the case. *See Poplar Grove Planting and Ref. Co. v. Bache Halsey Stuart, Inc.*, 600 F.2d
 16 1189, 1190-91 (5th Cir. 1979)

17 A bond is not a mandatory prerequisite for a stay of proceedings to enforce a
 18 money judgment, however. Settled law establishes that the district court has discretion to accept
 19 an alternative form of security.⁷ *See Int’l Telemeter, Corp. v. Hamlin Int’l Corp.*, 754 F.2d 1492,
 20 1495 (9th Cir. 1985) (citing *Poplar Grove Planting and Ref. Co.*, 600 F.2d at 1191). Acceptance
 21 of an alternative form of security is appropriate where (1) it is impossible or impracticable for the
 22 party seeking substitution to post the supersedeas bond and (2) the proposed alternative is
 23 adequate to safeguard the interests of the other party. *See Olympia Equip. Leasing Co.*, 786 F.2d
 24 at 796.

25 ⁶ During court-ordered negotiations over the form and content of the final judgment, Hynix and
 26 Rambus agreed that the automatic 10-day stay of execution under Rule 62(a) would be extended
 27 until two weeks after the hearing date on this motion, subject to certain conditions which Hynix
 28 has satisfied. *See* Final Judgment, ¶ 10.

⁷ The district court also has discretion to do away entirely with the requirement of a supersedeas
 bond. *See U.S. v. Boyce*, 148 F. Supp. 2d 1069, 1096 (S.D. Cal. 2001) (citing *Dillon v. City of*
Chicago, 866 F.2d 902, 904-05 (7th Cir. 1988)) (describing acceptance of alternative security as
 an alternative to waiving bond requirement by application of *Dillon* factors). Hynix does not seek
 to be relieved of the bond requirement entirely, only to be permitted to post adequate alternative
 security.

1 **A. It is Impracticable for Hynix to Obtain a Supersedeas Bond in the Full**
 2 **Amount of the Judgment**

3 After many months of effort, Hynix believes it will be able to obtain a supersedeas
 4 bond in the amount of \$200 million. Roh Decl., ¶ 20. The economic environment generally and
 5 conditions in the DRAM industry specifically have made it impracticable for Hynix to obtain a
 6 bond in the full amount of the judgment. *Id.*, ¶¶ 8-20.

7 In determining whether a bond is impracticable or impossible to post, courts may
 8 consider the assets of the party posting the bond, the liquidity of those assets, and whether
 9 financial institutions have agreed to provide a bond to the party. *HCB Contractors v. Rouse &*
 10 *Assoc.*, 168 F.R.D. 508, 512-513 (E.D. Pa. 1995). The court may also find that a bond is
 11 impracticable to post where the size or nature of the bond is unusual. *See Trans World Airlines,*
 12 *Inc. v. Hughes*, 515 F.2d 173, 177 (2d Cir. 1975); and *see Olympia Equip. Leasing Co.*, 786 F.2d
 13 at 796 (noting that an inflexible requirement of a bond can be inappropriate “in an age of titanic
 14 damage judgments”). Similarly, requirements imposed by the bonding company can render a
 15 supersedeas bond effectively unavailable because the judgment debtor is not reasonably able to
 16 fulfill those requirements. *See Olympia Equip.* at 796-797 (concluding that a supersedeas bond
 17 was unobtainable where a bond could not be obtained without a letter of credit, and judgment
 18 debtor demonstrated that the members of the bank lending consortium most familiar with its
 19 business were unwilling to issue a letter of credit).

20 Hynix faces two distinct but interrelated obstacles to obtaining a bond: the state of
 21 the global credit markets and its own financial condition. Adverse market conditions such as
 22 those now present can create a situation where it is impractical to obtain a bond. *See, e.g., United*
 23 *States v. Troyer*, No. S90-195 (RLM), 1992 U.S. Dist. LEXIS 6084, at *2 (N.D. Ind. Apr. 6,
 24 1992) (granting stay and waiving posting of supersedeas bond where the premium for a
 25 supersedeas bond was minimal but sureties, due to adverse market conditions, required that the
 26 bond be secured by cash or cash equivalents in the amount of 110% of the face amount of the
 27 bond).⁸ [REDACTED]

28 ⁸ Hynix has presented evidence, in the form of declarations, outlining relevant present conditions

At the same time, Hynix is facing serious challenges to its own business. Hynix is a large company, with a net worth of over \$4.3 billion, but the recent price crash in the DRAM industry has severely disrupted Hynix's business

Under similar circumstances, judgment debtors have been permitted to post alternative security. For example, in *Olympia Equip. Leasing*, a judgment of \$36 million was entered against Western Union Telegraph Company. Western Union Telegraph argued it was unable to post a \$36 million bond. The Seventh Circuit noted that Western Union Telegraph was "a large company, with total assets nominally worth \$2 billion" but was "financially distressed and illiquid." *See Olympia Equip. Leasing Co.*, 786 F.2d at 796. The Seventh Circuit approved (with minor modifications) the district court's order permitting posting of alternative security, consisting of a combination of pledged cash, accounts receivables, and a security interest in some of the company's physical assets. *Id.*

The cumulative effect of these global, industry, and company-specific forces is that a full supersedeas bond is effectively unavailable, particularly to a company, such as Hynix, which cannot presently meet the heightened requirements for obtaining a bond. *See id.*

B. Alternative Security Adequately Protects Rambus's Interests

"Although Federal Rule of Civil Procedure 62 provides that a supersedeas bond may be used to stay execution of a judgment pending appeal, the court has discretion to allow other forms of judgment guarantee." *Int'l Telemeter Corp. v. Hamlin Int'l Corp.*, 754 F.2d at 1495 (citing *Poplar Grove Planting and Ref. Co.*, 600 F.2d at 1191). The general requirement of a supersedeas bond has a practical purpose: to secure the judgment creditor from loss resulting from the stay of execution. *Fed. Prescription Svc., Inc. v. Am. Pharm. Ass'n*, 636 F.2d 755, 760

in the global economy and the DRAM industry. Hynix also requests that the Court take judicial notice of recent economic events. *See, e.g., In re JTS Corp.*, No. C05-4709 JF, 2008 U.S. Dist. LEXIS 98928, at *3 (N.D. Cal. Nov. 26, 2008) ("the Court takes judicial notice of the changes in the economy" in the two years prior to November 2008).

(D.C. Cir. 1980). Where alternative security can accomplish this same goal of protecting the judgment creditor, courts have approved a variety of alternative forms of security, including bonds or letters of credit in the partial amount of the judgment coupled with other security. *See, e.g., Trans World Airlines, Inc.*, 515 F.2d at 177 (letter of credit for \$75 million and an agreement to maintain a net worth of over \$335 million was held to be adequate security for a judgment of over \$83 million); *and see C. Albert Sauter Co. v. Richard S. Sauter Co.*, 368 F. Supp. 501, 520 (E.D. Pa. 1973) (bond in the amount of \$100,000, stock placed in escrow, and restrictions imposed on financial commitments were sufficient to secure a judgment of \$1.2 million).⁹

Hynix presently believes it will be able to obtain a supersedeas bond for \$200 million (just over half the amount of the final judgment). Roh Decl., ¶ 20. Hynix can also offer

Rambus

⁹ Some cases involve additional restrictions on the judgment debtor's financial affairs, which are not appropriate here because (1) Hynix is offering liens sufficient to fully secure the balance of the judgment above the bond amount and (2) such restrictions could harm the interests of Hynix's other creditors.

¹⁰

1 [REDACTED]

2 Taken together, this package of security protects Rambus's ability to collect on the

3 final judgment if it ultimately prevails. The bond portion protects \$200 million of the judgment.

4 [REDACTED]

5 [REDACTED]

6 [REDACTED] is fully enforceable by Rambus under Korean law. Declaration of Chang Weon Rhee

7 submitted in support of this motion, ¶¶ 3-4. There are well-established mechanisms under Korean

8 law for Rambus to register and foreclose on its mortgage lien if Rambus wins on appeal. *Id.*

9 C. **The Bond Requirement May Not be Used to Penalize Hynix for Exercising its**

10 **Right to Appeal**

11 The requirement for a supersedeas bond is not meant to penalize a party that wants

12 to exercise its right to appeal. *Poplar Grove Planting and Ref. Co., Inc.*, 600 F.2d at 1191. "If a

13 defendant has to liquidate all or a substantial part of his business in order to exercise the right to

14 appeal, then the appeal may surely be of doubtful value." *Trans World Airlines, Inc. v. Hughes*,

15 515 F.2d at 178; and see generally *Texaco Inc. v. Pennzoil Co.*, 784 F.2d 1133, 1152-53 (2d Cir.

16 1986) (holding that judgment debtor would be irreparably harmed if full bond, which was

17 impossible to obtain, was required in order to stay execution where execution would force

18 judgment debtor into bankruptcy, noting due process and other concerns), *rev'd on abstention*

19 *grounds*, 481 U.S. 1 (1987). Forcing Hynix to take drastic measures to obtain a full supersedeas

20 bond (if that were even possible) would severely undermine Hynix's business and would operate

21 as a penalty on Hynix's exercise of its right to appeal. The security requirement should not bar

22 the door to an appeal in this case, which presents many close, leading-edge issues. This is

23 particularly true when Hynix has been "singled out" from the rest of the DRAM industry and

24 final judgment entered largely so that this case can serve as a vehicle for presenting the Federal

25 Circuit with the spoliation decision from this Court at the same time it considers the conflicting

26 Delaware spoliation decision. Further, all of the claims at issue in this litigation (as well as in the

27 stayed litigation) are currently subject to reexamination over much of the same prior art evidence

28 during the patent trial. Nearly all of the claims have been rejected, and some have been rejected

1 more than once.

2 The cost of providing a supersedeas bond or alternative security are a taxable cost
3 of the appeal, which means that if Hynix prevails on its appeal, Rambus will liable for the costs
4 associated with any security Hynix is required to obtain. *See* Fed. R. App. P. 39(e)(3); *and see*
5 *Trans World Airlines, Inc. v. Hughes*, 515 F.2d at 176. In theory, then, Hynix and Rambus share
6 an interest in minimizing the cost of the security Hynix is required to provide. Moreover, because
7 the final judgment awards Rambus ongoing royalties from Hynix, Rambus has an interest in
8 seeing that Hynix is able to continue business operations.

9 Hynix has engaged in discussions with Rambus as to alternative security, with no
10 success. Hynix explained that it believes the largest bond it will be able to obtain is for \$200
11 million. Roh Decl., ¶ 24. Hynix made various proposals for alternative security [REDACTED]
12 [REDACTED] which Rambus has rejected.

13 The parties' shared interest in minimizing the costs of providing security for the
14 judgment casts suspicion on Rambus's refusal to stipulate to or work with Hynix in formulating
15 alternative security, suggesting that Rambus may be using the supersedeas bond requirement
16 improperly as a settlement hammer rather than for its intended purpose. This Court has
17 previously expressed a "firm conviction that Rambus's motive in seeking an injunction is not to
18 prevent irreparable harm but either (a) to increase its leverage in negotiating an ongoing license
19 with Hynix or (b) to punish Hynix out of spite for its decision to contest Rambus's infringement
20 allegations and over a variety of other grievances involving the industry's rejection of RDRAM."
21 Order Granting in Part and Denying in Part Rambus's Motion for Post-Verdict Relief dated
22 February 23, 2009 (D.E. 3902) ("Post-Verdict Relief Order"), at 45:6-10. Although Rambus has
23 a legitimate interest in protecting its right to collect in the event it prevails, any arguments
24 Rambus may make about the adequacy of the security offered by Hynix should be weighed
25 against Rambus's efforts to exert leverage over Hynix.

26 **V. HYNIX SHOULD BE PERMITTED TO ACCRUE ONGOING ROYALTIES**
27 **AWARDED TO RAMBUS IN THE FINAL JUDGMENT**

28 In its March 10, 2009 Order Regarding Entry of Judgment, the Court stated that

1 the proper way for Hynix to make its request to accrue ongoing royalties (rather than pay them to
 2 Rambus or to an escrow account) was by way of a Rule 62 motion following entry of judgment.
 3 Because Hynix is justifiably concerned about its ability to fully recover amounts paid to Rambus
 4 and Korean taxing authorities in connection with the ongoing royalties if Hynix prevails on
 5 appeal, the easiest and fairest way to implement the ongoing royalties is to permit Hynix to
 6 accrue, rather than pay, the ongoing royalties.

7 **A. The Royalties Paid to Rambus will be Recoverable if Hynix Prevails on**
 8 **Appeal**

9 In its Order Regarding Entry of Judgment, the Court stated that “Hynix’s fear --
 10 that Rambus will not return any royalties paid by Hynix even if Hynix prevails on appeal --
 11 appears baseless.” March 10, 2009 Order Regarding Entry of Judgment, p. 1:24-25 (citing
 12 *Broadcom Corp. v. Qualcomm Inc.*, 585 F. Supp. 2d 1187 (C.D. Cal. 2008)). With respect,
 13 Hynix contends that the current record validates Hynix’s concerns.

14 Rambus has artfully avoided any concession that ongoing royalties must be
 15 returned if Hynix prevails on appeal. In fact, Rambus appears to lay the groundwork for just the
 16 opposite argument, by mischaracterizing the ongoing royalties as akin to a voluntary license. *See*,
 17 *e.g.*, Brief of Rambus Inc. Addressing Form of [Proposed] Final Judgment (D.E. 3908), p. 4:8-15
 18 (Rambus citing case law on the issue of whether a party to a voluntary, pre-litigation patent
 19 license must continue to make royalty payments while it challenges patents in court). There is
 20 some disagreement in the cases regarding the proper terminology for a remedy such as that
 21 awarded in this case -- whether it should be designated an “ongoing royalty” or a “compulsory
 22 license.” *Compare Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314 (Fed. Cir. 2007)
 23 (majority opinion explains that “[w]e use the term ongoing royalty to distinguish this equitable
 24 remedy from a compulsory license” because “[t]he term ‘compulsory license’ implies that *anyone*
 25 who meets certain criteria has congressional authority to use that which is licensed”) *to id.* at
 26 1316 (Judge Rader, concurring, states that “calling a compulsory license an “ongoing royalty”
 27 does not make it any less a compulsory license”); *and see* Post-Verdict Relief Order, p. 47:20-22
 28 (“‘ongoing royalty’ is merely a nice way of saying ‘compulsory license’”).

Regardless of terminology, however, the forward-looking remedy that has been awarded to Rambus is *not* analogous to a voluntary, pre-litigation license. Instead, the ongoing royalties awarded here are more properly treated as damages paid pursuant to a judgment, which must be returned upon reversal. *See Broadcom Corp. v. Qualcomm Inc., supra*, 585 F. Supp. 2d at 1194 (upon reversal of court order, party that paid royalties as a result of the order was entitled to recover those royalties under theories of restitution, contempt, and implied patent license); *and see, e.g., Baltimore & Ohio R.R. Co. v. U.S.*, 279 U.S. 781, 787 (1929) (upon reversal of administrative agency's decision, party entitled to return of amounts paid pursuant to decision, with interest); *Atl. Coast Line R.R. Co. v. Florida*, 295 U.S. 301, 309 (1935) ("what has been lost to a litigant under the compulsion of a judgment shall be restored thereafter, in the event of a reversal by the litigants opposed to him, the beneficiaries of the error"); *Strong v. Laubach*, 443 F.3d 1297, 1300 (10th Cir. 2006) (after reversal of a district court decision, party was required to repay workers' compensation payments that were garnished to satisfy judgment). The Federal Circuit's decision in *On Demand Machine Corp. v. Ingram Indus.*, 442 F.3d 1331, 1334 (Fed. Cir. 2006), demonstrates that court-ordered, going-forward royalties are appropriately refunded after a successful appeal. In that case, the Federal Circuit reversed the judgment of infringement, which necessitated the vacatur of both the award for past damages and the grant of a going-forward, royalty-bearing license during appeal. *Id.*

The Court's characterization of Hynix's concerns as "baseless" implies that Hynix will be entitled to a return of the royalties paid if it prevails, but without an explicit order to that effect at this time it seems likely that Rambus will later contest this issue. Indeed, it seems likely that Rambus opposes any refund order so that it can recognize the ongoing royalties as revenue. Even with such an order, given economic conditions, Rambus's financial condition may deteriorate, making it difficult or impossible for Hynix to recover the royalty payments.

B. If Rambus Appeals the Denial of a Permanent Injunction, it Cannot Simultaneously Collect Ongoing Royalties Because Those Remedies are Inconsistent

If Rambus appeals the denial of a permanent injunction, its appeal would provide an additional basis for permitting Hynix to accrue rather than pay ongoing royalties, because

Rambus's efforts to obtain prospective injunctive relief would be inconsistent with its collection of ongoing royalties. *See Enserch Corp. v. Shand Morahan & Co., Inc.*, 918 F.2d 462, 464 (5th Cir. 1990) ("a lower court judgment may be suspended without bond when the relief sought by the prevailing party on appeal is inconsistent with enforcement of the lower court's judgment," giving as an example that a party that is trying on appeal to obtain specific performance in lieu of damages cannot at the same time attempt to execute a damage judgment). Accordingly, Rambus should not be permitted to receive payment of the ongoing royalties unless and until it renounces any intention to appeal the denial of injunctive relief.

C. Hynix Must Pay Withholding Taxes to the Korean Government in Connection with Royalty Payments to Rambus or Into an Escrow Account

The Korean government considers royalty payments made by a Korean company to a U.S. company (such as payments of ongoing royalties from Hynix to Rambus) to be Korean-source income to the U.S. company, and requires that withholding taxes (currently 16.5%) be deducted from the royalty amount and paid to the Korean government. Declaration of Taekjin Sa, ¶ 3. Hynix would be required to pay these withholding taxes -- [REDACTED] -- regardless of whether royalty payments are made to Rambus or into an escrow account. *Id.*, ¶ 5. There is a mechanism by which Hynix could request a refund of the withholding taxes paid to the Korean government (for example, if this case is reversed on appeal and Rambus is held not to have a right to ongoing royalties), but a refund requires administrative procedures by the Korean tax authorities. *Id.*, ¶¶ 6-7. Payment of royalties to Rambus or into escrow thus injects unnecessary international tax issues into the case.

D. The Court Should Order Accrual of the Royalties

Rambus contends that to support a ruling ordering accrual of the ongoing royalties, Hynix must meet the test set forth in *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 897 F.2d 511 (Fed. Cir. 1990) for obtaining a stay of an injunction pending appeal. *See* Brief of Rambus Inc. Addressing Form of [Proposed] Final Judgment (D.E. 3908), p. 4:26-5:5. For a number of reasons, Rambus's argument mischaracterizes the current posture of this case and has no basis in law.

1 First, the Court has the power to implement the ongoing royalties scheme it has
 2 imposed in any manner it chooses. There is case authority for permitting accrual, rather than
 3 payment, of royalties. *See, e.g., Voda v. Cordis Corp.*, No. Civ 03-1512-L, 2006 WL 2570614, at
 4 *6 (W.D. Okla. Sept. 5, 2006); *and see z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437,
 5 444 (E.D. Tex. 2006). Similarly, there is support in the cases for placing ongoing royalties in
 6 escrow pending appeal. *See* Order Granting Defendants' Motion for Approval of an Interest-
 7 Bearing Escrow Arrangement from *Finisar Corp. v. The DirecTV Group, Inc.* (Unpublished), No.
 8 1:05-CV-264, Docket No. 354 (E.D. Texas, Sept. 26, 2006).¹¹

9 Second, as discussed in Section V(A) above, the pre-litigation license cases cited
 10 by Rambus in support of its argument (such as *Cordis Corp. v. Medtronic*, 780 F.2d 991, 994-995
 11 (Fed. Cir. 1984)) do not apply in the context of Court-ordered ongoing royalties such as those
 12 involved here. *See Broadcom Corp. v. Qualcomm Inc.*, 585 F. Supp. 2d 1187, 1193-94.

13 Third, Rambus's argument hinges on its faulty attempt to cast the ongoing
 14 royalties as a remedy akin to injunctive relief. The Court expressly denied Rambus's motion for a
 15 permanent injunction. *See* Final Judgment, ¶ 6; *and see* Post-Verdict Relief Order. Accordingly,
 16 there is no basis here for application of the *Standard Havens* test.

17 Finally, even if Hynix is required to make such a showing, it has done so. Other
 18 courts have determined that Rambus cannot enforce its patents because of its spoliation of
 19 evidence, and as the Court has noted, this case involves many other close issues. *See* Post-
 20 Verdict Relief Order, 3:24-4:3. This case presents an extraordinary situation in which three
 21 district courts have considered the same spoliation evidence and issues; two of the courts have
 22 disagreed with this Court and barred Rambus's enforcement of its patents. Critical decisions by
 23 the Supreme Court and the Federal Circuit on obviousness, claim construction, and written
 24 description, among many other issues, have reordered patent law during the pendency of this
 25 case. Respectfully, Hynix suggests that it meets the standard for showing likelihood of success
 26 on its appeal. This is especially true when, as discussed above, Hynix has made a strong showing

27 ¹¹ This opinion was submitted to the Court on March 9, 2009 as Exhibit B to the Declaration of
 28 Theodore G. Brown, III (D.E. 3907). For ease of reference, the opinion is attached to this Motion
 as Exhibit B.

1 that it will suffer irreparable injury if it is forced to pay royalties to Rambus, both in the potential
2 loss of the withholding tax paid to the Korean government and in the possible inability to recover
3 royalties paid to Rambus if Hynix prevails on appeal. *See Standard Havens*, 897 F.2d at 513
4 (when there is a strong showing of harm to applicant for stay, necessary showing for likelihood of
5 success is lower). Rambus, by contrast, cannot demonstrate that it will suffer any injury if Hynix
6 accrues the ongoing royalties. Finally, the public interest weighs in favor of permitting Hynix to
7 accrue the royalties. Forcing Hynix to pay Rambus is likely to create additional disputes and
8 drain Court and party resources in order for Hynix to obtain recovery of that money if it prevails.
9 *See, e.g., Broadcom Corp. v. Qualcomm Inc.*, 585 F. Supp. 2d at 1187 (party who paid royalties
10 during appeal forced to bring motion to recover them after winning appeal).

11 Given that Rambus's patent cases against Samsung, Micron, and Nanya are stayed
12 pending the Federal Circuit's consideration of the spoliation decisions from this Court and the
13 Delaware district court, Hynix would be the only major manufacturer of industry-standard
14 DRAM products that would be forced to pay royalties to Rambus on the patents-in-suit during the
15 appeal. Forcing Hynix to pay royalties during appeal is particularly inappropriate given the
16 strong public interest in consistent results in patent cases, because it would further exacerbate the
17 fact that, as things stand, Rambus's patents-in-suit are enforceable only against Hynix. *See*
18 *generally Markman v. Westview Instruments*, 517 U.S. 370, 390 (1996) (uniformity in treatment
19 of a given patent "strengthen[s] the United States patent system"), *and Mendenhall v. Barber-*
20 *Greene Co.*, 26 F.3d at 1583 (noting fairness concerns when "the rest of the industry is not
21 impeded by the patents"). The fact that the claims-in-suit are under PTO reexamination (where
22 nearly all have been rejected) exacerbates these concerns. At most, Hynix should be ordered to
23 pay ongoing royalties into an escrow account, rather than paying them to Rambus. *See Finisar*
24 *Corp. v. The DirecTV Group, Inc., supra*.

1 **VI. CONCLUSION**

2 For the foregoing reasons, Hynix requests that the Court stay execution of the
3 money judgment in this case and grant Hynix 30 days to put into place the alternative security
4 described above.

5 Dated: March 24, 2009

By: /s/ Kenneth L. Nissly
Kenneth L. Nissly

6 KENNETH L. NISSLY
7 SUSAN van KEULEN
8 SUSAN ROEDER
O'MELVENY & MYERS LLP

9 THEODORE G. BROWN III
10 JULIE J. HAN
TOWNSEND and TOWNSEND and CREW LLP

11 Attorneys for Plaintiffs
12 HYNIX SEMICONDUCTOR INC.,
13 HYNIX SEMICONDUCTOR AMERICA INC.,
HYNIX SEMICONDUCTOR U.K. LTD., and
HYNIX SEMICONDUCTOR DEUTSCHLAND GmbH

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